

Message Text

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FM AMEMBASSY PARIS

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AMEMBASSY TOKYO

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AMEMBASSY ALGIERS

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C O N F I D E N T I A L SECTION 01 OF 04 PARIS 14086

E.O. 11652: GDS

TAGS: ENRG, FR

SUBJECT: FRENCH ENERGY POLICY

1. SUMMARY: FRANCE'S ENERGY POLICY REMAINS INDEPENDENT, BUT IT HAS MATURED SINCE 1973. FROM THE BASIS OF A FAIRLY STRONG DOMESTIC ENERGY PROGRAM, THE GOF IS MORE REALISTIC ABOUT ITS RELATIONS WITH OIL PRODUCERS, AND LESS AGGRESSIVE IN ITS ATTITUDE TOWARD THE IEA. WE WILL CONTINUE TO HAVE PROBLEMS WITH THE FRENCH ON MANY ASPECTS OF POLICY, BUT OUR BASIC GOALS AND STRATEGIES ARE PARALLEL.

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2. A LITTLE OVER TWO YEARS SINCE FRANCE'S REFUSAL TO

JOIN OTHER OIL CONSUMING COUNTRIES IN A JOINT ENERGY POLICY EFFORT, THE GOF HAS PRODUCED TWO DOCUMENTS WHICH INDICATE THE DIRECTIONS OF CURRENT FRENCH ENERGY POLICY AND SERVE AS A MILESTONE AGAINST WHICH TO MEASURE CHANGES, IF ANY, SINCE 1973. THE TWO DOCUMENTS ARE THE ENERGY COMMISSION REPORT FOR THE SEVENTH PLAN, RECENTLY APPROVED AT THE HIGHEST GOF LEVEL, AND THE GOF'S MEMORANDUM TO THE EUROPEAN COUNCIL ON A COMMON EC ENERGY POLICY. IN THE ANALYSIS WHICH FOLLOWS, THOSE DOCUMENTS ARE USED AS A POINT OF DEPARTURE. ANALYSES OF THE TWO PAPERS FOLLOW SEPARATELY.

POLICY TOWARD ENERGY SUPPLIERS:

3. NO FRENCH ENERGY POLICY CAN IGNORE THE BASIC FACT THAT THREE-FOURTHS OF THE COUNTRY'S ENERGY SUPPLIES AND 99 PERCENT OF ITS OIL ARE IMPORTED. FRENCH GOVERNMENTS HAVE FOR A LONG TIME DRAWN THE POLICY CONCLUSION THAT THIS DEPENDENCE REQUIRES FRIENDLY RELATIONS WITH THE ENERGY SUPPLIERS. THIS BASIC PREMISE CONTINUES UNCHALLENGED. BUT THE EXPECTATION THAT A FRIENDLY POLICY WOULD AUTOMATICALLY TRANSLATE INTO PREFERENTIAL STATUS, RATHER NAIVELY HELD BEFORE 1974, HAS SUBSEQUENTLY BEEN LARGELY DESTROYED. FRANCE'S PAYOFF HAS IN FACT BEEN VERY SMALL. THE ONE POLITICALLY MOTIVATED OIL DEAL (THE "JOBERT CONTRACT" WITH THE SAUDIS) GAVE NO PREFERENTIAL PRICE, NOR DID ANY OTHER POST1973 OIL OR GAS PURCHASE BY FRENCH COMPANIES. FRENCH EXPORT GROWTH TO THE OPEC COUNTRIES HAS BEEN NO BETTER THAN THAT OF OTHER OECD COUNTRIES. (PARIS A-193) PARIS HAS NOT BECOME A MAJOR NEW INVESTMENT CENTER FOR OPEC FUNDS (IN FACT THE IRANIANS ARE REPORTED TO BE WITHDRAWING FUNDS ON DEPOSIT). FRENCH OIL COMPANIES HAVE NOT BEEN ABLE TO PICK UP SIGNIFICANT PIECES OF THE MAJORS' ERODING MIDDLE EAST CONCESSIONS (IN FACT THE REVERSE HAS HAPPENED: ELF HAS BEEN OBLIGED TO ABANDON WHAT REMAINED OF ITS ALGERIAN INTERESTS). EVEN THE FRANCOPHONE AFRICAN COUNTRIES HAVE STIFFENED THE TERMS OF FRENCH ACCESS TO URANIUM ORES IN THOSE
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COUNTRIES IN WHICH THE FRENCH HAVE HAD A PREFERRED POSITION.

4. THE ENERGY POLICY CONCLUSION WHICH THE FRENCH HAVE DRAWN FROM THESE DEVELOPMENTS (OR LACK OF THEM) REPRESENTS THE MOST SIGNIFICANT DEPARTURE FROM THE IDEAS OF 1974. THE GOF NOW REALIZES THAT, AS FAR AS NORMAL ENERGY SUPPLIES ARE CONCERNED, IT WILL PRETTY MUCH HAVE TO PAY ITS WAY LIKE EVERYONE ELSE, AND CAN EXPECT FEW IF ANY BREAKS FROM THE PRODUCERS.

5. THE HOPE NONETHELESS DIES HARD THAT THE MINISTRY OF FOREIGN AFFAIRS COULD NOT, IN CASE OF A NEW OIL EMBARGO, GET SLIGHTLY MORE SUPPLIES FOR FRANCE THAN OTHER COUNTRIES WOULD GET. THE GOF WILL, THEREFORE, CONTINUE TO RESIST ANY SCHEME WHICH WOULD MAKE FRENCH OIL SUPPLIES AUTOMATICALLY VULNERABLE TO WHAT IT CONSIDERS TO BE THE GREATEST DANGER -- A POLITICALLY INSPIRED EMBARGO AGAINST THE U.S. IN ADDITION, THE GOF CONTINUES TO BELIEVE THAT, EVEN IF FRANCE ALONE

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AMEMBASSY TOKYO

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MAY NOT BE ABLE TO REAP THE BENEFIT OF A FRIENDLY POLICY TOWARD OIL PRODUCERS, THE "MEDITERRANEAN VOCATION" OF THE EUROPEAN COMMUNITY MAY PERMIT THE EC TO RECEIVE FAVORED TREATMENT; HENCE FRANCE IS PUSHING THE EURO-ARAB DIALOGUE HARD. EVEN IN THE POSSIBLE CONTEXT OF A MORE SIGNIFICANT EURO-ARAB RELATIONSHIP, HOWEVER, THE GOF WILL CONTINUE TO SEEK A GOOD DEGREE OF FREEDOM OF MANEUVER FOR ITSELF VIS-A-VIS THE OIL PRODUCERS IN TIMES OF EMERGENCY.

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POLICY TOWARD CONSUMING COUNTRIES:

6. THE GOF'S EMPHASIS ON THE EC AS THE BASIC AND FIRST-PRIORITY FORUM FOR ANY FRENCH ENERGY POLICY COORDINATION HAS ALWAYS INCLUDED ROUGHLY EQUAL ELEMENTS OF CONVICTION AND SHAM. THE CONVICTION COMES FROM THE GOF'S PERCEPTION, AS NOTED ABOVE, THAT THE EC HAS A SPECIAL ROLE TO PLAY TOWARD THE OIL PRODUCERS (PARTICULARLY THOSE IN THE MIDDLE EAST), AND THAT THE EUROPEANS GENERALLY HAVE MORE INTERESTS IN COMMON IN THE ENERGY FIELD THAN THEY DO WITH THE U.S., CANADA, OR EVEN JAPAN. ON THE OTHER HAND, THE GOF HAS FEW EXPECTATIONS THAT THE EC CAN DEVELOP A MEANINGFUL COMMON ENERGY POLICY, AND OFTEN USES ITS OSTENSIBLE SUPPORT FOR COMMUNITY ACTION AS A WAY SIMPLY OF NEEDLING ITS EIGHT COLLEAGUES WHO JOINED THE IEA INTO SUPPORTING FRENCH THESES, BOTH IN THE AGENCY AND IN THE EC.

7. THE FRENCH PROPOSALS TO THE EUROPEAN COUNCIL ON A COMMON ENERGY POLICY DO NONETHELESS REPRESENT A SERIOUS GOF EFFORT TO SKETCH THE MINIMAL FRAMEWORK OF A BROAD EC ENERGY POLICY, AND TO DEFINE THE TRADEOFFS FOR POSSIBLE FUTURE ACCEPTANCE OF THE MINIMUM SUPPORT PRICE (MSP) AND A COMMUNITY OIL-SHARING SCHEME. BUT THE FRENCH DO NOT CONSIDER THEIR PROPOSALS VITAL; ARE IN NO PARTICULAR HURRY TO NEGOTIATE A COMMON POLICY; AND ARE MOST EMPHATICALLY NOT WILLING TO BE PUT IN THE POSITION OF DEMANDEURS BY THEIR EC COLLEAGUES. THEY WILL -- AS IN THE PAST, AND IN SPITE OF THEIR CLAIMS TO BE MORE "COMMUNAUTAIRE" THAN THE EIGHT -- PREFER TO HAVE NO COMMUNITY ENERGY POLICY RATHER THAN ONE THEY DON'T LIKE. THUS, THE ONLY SIGNIFICANT CHANGE SINCE 1973 IN THE GOF'S OUTLOOK TOWARD FORMATION OF AN EC ENERGY POLICY IS THE DROPPING OF SOME OF THE MORE OUTRAGEOUS FRENCH DEMANDS SUCH AS THE PROPOSALS TO REGULATE THE ENTIRE EC ENERGY MARKETPLACE ALONG FRENCH-STYLE LINES. (IN FACT, THEY ARE EVEN MILDLY ON THE

DEFENSIVE ON THAT ISSUE AS A RESULT OF THE EC ANTI-TRUST OFFICE'S RECENT DEMAND THAT THE FRENCH OIL IMPORT LICENSE SYSTEM BE REVISED.)

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8. THE IEA REMAINS A SIGNIFICANT FACTOR IN FRENCH RELATIONS WITH THE EC EIGHT. FRENCH NEGATIVISM TOWARD THE IEA HAS SOFTENED UNDER GISCARD AND WITH THE EVOLUTION OF THE CIEC DIALOGUE, AND FRANCE IS IN SOME RESPECTS A DE FACTO MEMBER AS A RESULT OF THE PROCESS OF PRE-CONSULTATIONS AND DEBRIEFINGS AMONG THE NINE WHICH SURROUND EACH SIGNIFICANT MEETING OF THE IEA. BUT THE GOF'S ATTITUDE TOWARD ANY DIRECT ASSOCIATION WITH THE AGENCY HAS REMAINED NEGATIVE; IT IS UNWILLING TO PAY ANY POLITICAL PRICE (EITHER DOMESTICALLY OR WITH THE OIL PRODUCERS) FOR SOMETHING WHICH IT BELIEVES OF ONLY MARGINAL POTENTIAL VALUE TO FRANCE (ACCESS TO IEA TECHNOLOGY SHARING, INFORMATION ON OIL COMPANY OPERATIONS, ETC.). AS IT MOST PROBABLY GETS MUCH OF THAT INFORMATION INDIRECTLY, THE GOF FINDS THAT IT IN FACT PAYS NOTHING FOR STAYING OUT. CONTINUED SHUNNING OF THE US-LED IEA, MOREOVER, GIVES THE POLITICALLY USEFUL APPEARANCE OF INDEPENDENCE IN FRENCH POLICY (THOUGH MOST GOF OFFICIALS WHO UNDERSTAND ENERGY ISSUES REALIZE THAT THE GOF'S REAL INDEPENDENCE IN CASE OF AN OIL EMERGENCY WOULD BE VERY LIMITED).

9. WE THEREFORE SEE LITTLE LIKELIHOOD OF A CHANGE IN GOF POLICY TOWARD THE IEA. THE FRENCH DISLIKE BEING LEFT OUT OF IEA COORDINATION ON CIEC ENERGY ISSUES, AND WILL CONTINUE TO TRY TO HAVE THAT COORDINATION CONDUCTED ELSEWHERE -- EITHER THROUGH TYING THEIR EC COLLEAGUES INTO RIGID MANDATES, OR THROUGH RENEWED EFFORTS TO GIVE A ROLE TO THE OECD/EPC. BUT WHATEVER COMMITMENT THEY HAVE TO THE LATTER ORGANIZATION IS ONLY TACTICAL; THEY HAVE NO INTENTION OF GIVING IT ANY REAL RESPONSIBILITY. THEY HAVE RULED OUT THE

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AMEMBASSY TOKYO

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ALTERNATIVE -- THAT OF ASSOCIATION WITH THE IEA --
FOR POLITICAL REASONS WHICH ARE UNLIKELY TO CHANGE,
IF EVER, BEFORE THE 1978 PARLIAMENTARY ELECTIONS.

DOMESTIC ENERGY POLICY:

10. THE GOF DREW THE SAME BASIC CONCLUSION FROM THE
1973-74 OIL CRISIS AS DID THE MEMBERS OF THE IEA --
NAMELY, THAT IT WILL BE ESSENTIAL TO REDUCE RELIANCE
ON IMPORTED OPEC OIL AS RAPIDLY AS POSSIBLE. THEY HAVE
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ALSO ACTED ON THE BASIS OF THAT CONCLUSION. A NUMBER
OF POLICIES HAVE BEEN ADOPTED TO REDUCE OVERALL
CONSUMPTION OF ENERGY, INCREASE THE ROLE OF NUCLEAR
ENERGY AT THE EXPENSE OF IMPORTED OIL, AND INCREASE

THE SEARCH FOR ALTERNATIVE ENERGY SOURCES OR SAFER AND MORE DIVERSIFIED TRADITIONAL ENERGY SOURCES.

11. ACCORDING TO THE GUIDELINES OF THE SEVENTH PLAN, RECENTLY APPROVED, THE GOF AIMS AT REDUCING FRENCH DEPENDENCE ON IMPORTED ENERGY FROM 75 PERCENT CURRENTLY TO 62 PERCENT IN 1985. TOTAL ENERGY CONSUMED IN 1985 SHOULD BE REDUCED BY APPROXIMATELY 20 PERCENT FROM THE PRE-1973 PROJECTIONS, WITH OIL CONSUMPTION IN 1985 AT APPROXIMATELY ITS 1973 LEVEL. LIKE ALL PLANNING TARGETS, THESE ARE SUBJECT TO CHALLENGE. LIKEWISE, FRENCH POLICIES ALREADY IN PLACE TO REDUCE ENERGY CONSUMPTION HAVE NOT REALLY BEEN TESTED AS A RESULT OF THE RECESSION AND SEVERAL WARMER THAN AVERAGE WINTERS. NEVERTHELESS, THESE TARGETS HAVE BEEN SET WITH A SERIOUS INTENT OF REACHING THEM, AND THE GOF IS COMMITTED TO THE MANAGEMENT OF ITS ENERGY CONSUMPTION AND REDUCTION OF ITS SUPPLY DEPENDENCE. IT WOULD BE INTERESTING TO GUESS HOW THE FRENCH MIGHT HAVE RATED IN THE IEA ANALYSIS OF CONSUMPTION-REDUCTION PERFORMANCE.

12. THE KEY ELEMENT OF THE GOF'S PLAN IS AN EXPANDED NUCLEAR CAPACITY. WHILE THE PLANNED PACE OF NUCLEAR DEVELOPMENT HAS BEEN SLOWED DOWN SOMEWHAT FROM EARLIER PROJECTIONS, THIS IS MORE FROM TECHNICAL CONSTRAINTS (PARTICULARLY ON THE RATE OF EXPANSION OF ELECTRIC SPACE HEATING) THAN FROM SIGNIFICANT CHALLENGES TO THE NUCLEAR POLICY. HOWEVER, ENVIRONMENTAL AND OTHER PUBLIC OPINION CHALLENGES TO THAT POLICY DO EXIST AND, WHILE THEY NOW APPEAR TO BE MANAGEABLE, (EVEN THE SOCIALISTS, SHOULD THEY LEAD A WINNING ELECTORAL COALITION IN 1978, ARE PRETTY WELL COMMITTED TO THE NUCLEAR OPTION) THEY MAY CAUSE FUTURE DELAYS IN THE GOF PROGRAM.

13. THE FRENCH HAVE ABSORBED THE INCREASED ENERGY
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COSTS SATISFACTORILY. THOUGH THE IMPORTED OIL BILL IS EXPECTED TO BE OVER \$11 BILLION IN 1976, THE FRENCH HOPE TO RECAPTURE PART IN INCREASED EXPORTS TO OPEC COUNTRIES. MOREOVER, THEY FEEL THAT THEIR COMPETITIVE POSITION VIS-A-VIS OTHER INDUSTRIALIZED COUNTRIES WILL NOT BE HURT AS LONG AS THE FRANC DOES NOT WEAKEN DRASTICALLY. THEIR PLAN TARGETS HAVE BEEN SET AT A (1976 DOLLAR) PRICE RANGE OF \$8-12 PER BARREL OF OIL EQUIVALENT. THIS DOES NOT NECESSARILY MEAN, HOWEVER, THAT THE GOF EXPECTS PRICES TO FALL (THEY ARE CURRENTLY AT THE UPPER END OF THE RANGE), BUT RATHER THAT IT FEELS ITS NUCLEAR PROGRAM TO BE VIABLE EVEN IF PRICES

WERE TO FALL. IN ANY EVENT, THE GOF DOES NOT EXPECT
ANY LARGE NEW OIL PRICE INCREASES.

IMPLICATIONS FOR THE U.S.:

14. THE FRENCH BELIEVE THEY HAVE A COHERENT AND
REALIZEABLE ENERGY POLICY. THEY NONETHELESS RECOGNIZE
THAT EVENTS, OUTSIDE OF A LIMITED DOMESTIC CONTEXT,
ARE BEYOND THEIR CONTROL AND THAT THEIR OWN INFLUENCE
ON THE ENERGY MARKET (OR MIDDLE EAST POLITICAL EVENTS)
IS SMALL. THEY ACKNOWLEDGE THE IMPORTANCE OF THE U.S.
IN BOTH RESPECTS AND URGE US, AT EVERY OPPORTUNITY,
TO ACCELERATE A POLICY OF REDUCED OIL IMPORT DEPENDENCE.

15. THE FIRST GOF PRIORITY IS TO IMPROVE FRANCE'S
ENERGY BALANCE AND DIVERSIFY ITS ENERGY RESOURCES.
IT IS IN OUR OVERALL INTEREST THAT THE FRENCH DO THIS,
AS IT ESSENTIALLY PARALLELS IEA ENERGY POLICY. BUT
THERE WILL INEVITABLY BE POINTS OF FRICTION AS THE
FRENCH TRY TO INCREASE THEIR NATIONAL CAPACITY TO DO
WITH LESS OPEC OIL. THE CONCOMITANT OF AN AMBITIOUS

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FRENCH DOMESTIC NUCLEAR PROGRAM, TO TAKE THE MOST IMPORTANT EXAMPLE, WILL BE AN EFFORT TO REDUCE PRODUCTION COSTS THROUGH FOREIGN SALES. WE CAN EXPECT AGGRESSIVE FRENCH COMPETITION ACROSS THE WHOLE RANGE OF FOREIGN NUCLEAR PLANT AND SERVICE SALES. SIMILARLY, CURRENT EFFORTS TO UNIFY AND STRENGTHEN FRENCH OIL COMPANY CAPABILITIES MAY INCREASE THEIR COMPETITIVENESS MARGINALLY. FINALLY, GOF CONCERNS TO PROTECT THE FRENCH REFINING INDUSTRY MAY RESULT IN A SQUEEZE ON U.S. MARKETER-REFINERS IN THE DOMESTIC MARKET. ALL
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OF THESE PROBLEMS ARE HOWEVER MANAGEABLE AND SHOULD CAUSE NO MAJOR FRENCH-U.S. UPSETS (THE EXCEPTION COULD BE IN THE EVENT OF A MAJOR USG-GOF DISPUTE ON THE INTERPRETATION OF THE NUCLEAR SUPPLIERS' AGREEMENT).

16. CONSUMER COOPERATION IS A SECOND FRENCH PRIORITY, BUT THEIR FORUM IS DIFFERENT FROM OURS. THERE IS LITTLE OR NO POSSIBILITY THAT THEY WILL ASSOCIATE THEMSELVES WITH THE IEA; THEY CONSIDER THIS A DEAD ISSUE. THE FRENCH PROPOSALS FOR AN EC ENERGY POLICY WOULD APPEAR TO POSE NO DIRECT PROBLEMS FOR US, AND MAY OPEN A NEGOTIATION WHICH COULD LEAD TO A COMMUNITY MSP AND OIL SHARING SCHEME. KEEPING AN EMERGING EC POLICY COMPATIBLE WITH IEA POLICY WILL PROBABLY BE A GOAL OF THE EC EIGHT, THOUGH WE MIGHT CONCEIVABLY NEED TO ENCOURAGE THEM IN THAT DIRECTION FROM TIME TO TIME. IN THE MEANTIME, FRENCH ABSENCE FROM IEA COSTS US AND MAY IN SOME WAYS EVEN BE AN ADVANTAGE IN REACHING DECISIONS WITHIN THAT ORGANIZATION. WE WILL, HOWEVER, HAVE TO PUT UP WITH THE GOF'S INEVITABLE ATTEMPTS TO DOWNPLAY IEA AS THE MAIN FOCUS OF CONSUMER COOPERATION, BUT THESE SHOULD NOT BE DIFFICULT TO FIGHT OFF AS LONG AS THE IEA CONTINUES TO HAVE REAL VALUE IN THE EYES OF ITS MEMBERS.

17. BILATERALISM WITH OIL PRODUCERS IS A MUCH REDUCED

GOF PRIORITY. ALONG WITH THE REDUCTION IN FRENCH EXPECTATIONS FROM THIS POLICY GOES A REDUCED DANGER THAT IT COULD BE HARMFUL TO OUR ENERGY POLICY INTERESTS. CERTAINLY, THE GOF INTENDS TO COMPETE HARD ON THE COMMERCIAL FRONT, TO ASK FAVORS AND PULL POLITICAL STRINGS ON BEHALF OF FRENCH COMPANIES WHEN POSSIBLE, BUT THIS IS NOT A POLICY LINE EXCLUSIVE TO FRANCE AND WE SEE NO REASON TO BELIEVE THAT THEY CAN BE ANY MORE SUCCESSFUL AT IT THAN THEY HAVE BEEN IN THE PAST.

18. IN SUM, FRANCE'S ENERGY POLICY REMAINS INDEPENDENT BUT ON A PARALLEL COURSE TO THAT OF OTHER ENERGY CONSUMERS IN THE IEA. THE FRENCH WILL TROUBLE US FROM TIME TO TIME OVER ISSUES, SOMETIMES SIGNIFICANT, SOMETIMES MINOR. BUT THE POLICY CONFRONTATIONS
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OF 1973-74 ARE DEAD, AND NO NEW ONES ARE IMMEDIATELY FORSEEABLE.
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